

Label

(See instructions on page 16.)

Use the IRS label.

Otherwise, please print or type.

Presidential

Election Campaign

For the year Jan. 1–Dec. 31, 2006, or other tax year beginning , 2006, ending , 20	
Your first name and initial	Last name
If a joint return, spouse's first name and initial	Last name
Home address (number and street). If you have a P.O. box, see page 16.	Apt. no.
City, town or post office, state, and ZIP code. If you have a foreign address, see page 16.	

OMB No. 1545-0074

Your social security number

Spouse's social security number

▲ You must enter your SSN(s) above. ▲

Checking a box below will not change your tax or refund.

Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund (see page 16) ☐ You ☐ Spouse

Filing Status

Check only one box.

- 1 ☐ Single
- 2 ☐ Married filing jointly (even if only one had income)
- 3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
- 4 ☐ Head of household (with qualifying person). (See page 17.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
- 5 ☐ Qualifying widow(er) with dependent child (see page 17)

Exemptions

If more than four dependents, see page 19.

6a <input type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a			
b <input type="checkbox"/> Spouse			
c Dependents:			
(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you
			(4) <input checked="" type="checkbox"/> If qualifying child for child tax credit (see page 19)
d Total number of exemptions claimed			

Boxes checked on 6a and 6b

No. of children on 6c who:

- lived with you
- did not live with you due to divorce or separation (see page 20)

Dependents on 6c not entered above

Add numbers on lines above ▶

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see page 22.

Enclose, but do not attach, any payment. Also, please use Form 1040-V.

7	Wages, salaries, tips, etc. Attach Form(s) W-2	7
8a	Taxable interest. Attach Schedule B if required	8a
b	Tax-exempt interest. Do not include on line 8a	8b
9a	Ordinary dividends. Attach Schedule B if required	9a
b	Qualified dividends (see page 23)	9b
10	Taxable refunds, credits, or offsets of state and local income taxes (see page 23)	10
11	Alimony received	11
12	Business income or (loss). Attach Schedule C or C-EZ	12
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	13
14	Other gains or (losses). Attach Form 4797	14
15a	IRA distributions	15a
16a	Pensions and annuities	16a
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17
18	Farm income or (loss). Attach Schedule F	18
19	Unemployment compensation	19
20a	Social security benefits	20a
21	Other income. List type and amount (see page 29)	21
22	Add the amounts in the far right column for lines 7 through 21. This is your total income ▶	22

Adjusted Gross Income

23	Archer MSA deduction. Attach Form 8853	23
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24
25	Health savings account deduction. Attach Form 8889	25
26	Moving expenses. Attach Form 3903	26
27	One-half of self-employment tax. Attach Schedule SE	27
28	Self-employed SEP, SIMPLE, and qualified plans	28
29	Self-employed health insurance deduction (see page 30)	29
30	Penalty on early withdrawal of savings	30
31a	Alimony paid b Recipient's SSN ▶	31a
32	IRA deduction (see page 31)	32
33	Student loan interest deduction (see page 33)	33
34	Jury duty pay you gave to your employer	34
35	Domestic production activities deduction. Attach Form 8903	35
36	Add lines 23 through 31a and 32 through 35	36
37	Subtract line 36 from line 22. This is your adjusted gross income ▶	37

Tax and Credits**Standard Deduction for—**

• People who checked any box on line 39a or 39b or who can be claimed as a dependent, see page 36.

• All others:
Single or Married filing separately, \$5,150
Married filing jointly or Qualifying widow(er), \$10,300
Head of household, \$7,550

38	Amount from line 37 (adjusted gross income)	38	
39a	Check <input type="checkbox"/> You were born before January 2, 1942, <input type="checkbox"/> Blind. <input type="checkbox"/> Spouse was born before January 2, 1942, <input type="checkbox"/> Blind. Total boxes checked <input type="checkbox"/> 39a		
b	If your spouse itemizes on a separate return or you were a dual-status alien, see page 35 and check here <input type="checkbox"/> 39b		
40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	
41	Subtract line 40 from line 38	41	
42	If line 38 is over \$112,875, or you provided housing to a person displaced by Hurricane Katrina, see page 37. Otherwise, multiply \$3,300 by the total number of exemptions claimed on line 6d	42	
43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	
44	Tax (see page 37). Check if any tax is from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972	44	
45	Alternative minimum tax (see page 39). Attach Form 6251	45	
46	Add lines 44 and 45	46	
47	Foreign tax credit. Attach Form 1116 if required	47	
48	Credit for child and dependent care expenses. Attach Form 2441	48	
49	Credit for the elderly or the disabled. Attach Schedule R	49	
50	Education credits. Attach Form 8863	50	
51	Retirement savings contributions credit. Attach Form 8880	51	
52	Residential energy credits. Attach Form 5695	52	
53	Child tax credit (see page XX). Attach Form 8901 if required	53	
54	Credits from: a <input type="checkbox"/> Form 8396 b <input type="checkbox"/> Form 8839 c <input type="checkbox"/> Form 8859	54	
55	Other credits: a <input type="checkbox"/> Form 3800 b <input type="checkbox"/> Form 8801 c <input type="checkbox"/> Form	55	
56	Add lines 47 through 55. These are your total credits	56	
57	Subtract line 56 from line 46. If line 56 is more than line 46, enter -0-	57	

Other Taxes

58	Self-employment tax. Attach Schedule SE	58	
59	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137	59	
60	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	60	
61	Advance earned income credit payments from Form(s) W-2, box 9	61	
62	Household employment taxes. Attach Schedule H	62	
63	Add lines 57 through 62. This is your total tax	63	

Payments

If you have a qualifying child, attach Schedule EIC.

64	Federal income tax withheld from Forms W-2 and 1099	64	
65	2006 estimated tax payments and amount applied from 2005 return	65	
66a	Earned income credit (EIC)	66a	
b	Nontaxable combat pay election <input type="checkbox"/> 66b		
67	Excess social security and tier 1 RRTA tax withheld (see page 59)	67	
68	Additional child tax credit. Attach Form 8812	68	
69	Amount paid with request for extension to file (see page 59)	69	
70	Payments from: a <input type="checkbox"/> Form 2439 b <input type="checkbox"/> Form 4136 c <input type="checkbox"/> Form 8885	70	
71	Credit for federal telephone excise tax paid. Attach Form 8913 if required	71	
72	Add lines 64, 65, 66a, and 67 through 71. These are your total payments	72	

Refund

Direct deposit? See page 59 and fill in 74b, 74c, and 74d, or Form 8888.

73	If line 72 is more than line 63, subtract line 63 from line 72. This is the amount you overpaid	73	
74a	Amount of line 73 you want refunded to you . If Form 8888 is attached, check here <input type="checkbox"/>	74a	
b	Routing number <input type="text"/>	c	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
d	Account number <input type="text"/>		

75	Amount of line 73 you want applied to your 2007 estimated tax	75	
76	Amount you owe. Subtract line 72 from line 63. For details on how to pay, see page 60	76	
77	Estimated tax penalty (see page 60)	77	

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see page 61)? ☐ **Yes.** Complete the following. ☐ **No**

Designee's name <input type="text"/>	Phone no. <input type="text"/> (<input type="text"/>) <input type="text"/>	Personal identification number (PIN) <input type="text"/>
--------------------------------------	--	---

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Joint return? See page 17. Keep a copy for your records.

Your signature <input type="text"/>	Date <input type="text"/>	Your occupation <input type="text"/>	Daytime phone number (<input type="text"/>) <input type="text"/>
Spouse's signature. If a joint return, both must sign. <input type="text"/>	Date <input type="text"/>	Spouse's occupation <input type="text"/>	<input type="text"/>

Paid Preparer's Use Only

Preparer's signature <input type="text"/>	Date <input type="text"/>	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN <input type="text"/>
Firm's name (or yours if self-employed), address, and ZIP code <input type="text"/>	EIN <input type="text"/>	Phone no. (<input type="text"/>) <input type="text"/>	

NOTE: ((****)) = Indicates confidential and/or proprietary information.



Your social security number

Attachment
Sequence No. **08**

Amount

1

5

6

7a At any time during 2006, did you have an interest in or a signature or other authority over a financial account in a foreign country, such as a bank account, securities account, or other financial account? See page B-2 for exceptions and filing requirements for Form TD F 90-22.1.

b If "Yes," enter the name of the foreign country ►

8 During 2006, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See page B-2

Schedule B (Form 1040) 2006

2006 California Volunteer Manual

Form

540

Section

BEFORE YOU BEGIN THE FORM 540

You must complete your clients' federal return before completing their Form 540 return. Information from the federal return is carried to the California return.

A Form 540 must be completed for your clients if they:

1. Claim any additional credits in Step 6, Special Credits and Nonrefundable Renter's Credit.

2. Have any of the following adjustments:
 - * California lottery winnings
 - * Difference between federal and state wages on the Form W-2
 - * Interest on state and municipal bonds from a state other than California
 - * Claimed educator expense, student loan deduction or tuition and fee deduction on your clients' federal return.
3. Completed a Federal Schedule CEZ for 1099-MISC income; or a Federal Schedule D for Sale of Stock or Personal Residence.

STEP 1 - NAME, ADDRESS & SOCIAL SECURITY NUMBER

The instructions for Name and Address are the same for all of the forms (540 2EZ, 540A, and 540). Refer to page 13, general information section, for specific instructions.

STEP 2 - FILING STATUS

Fill in only one of the circles on lines 1 through 5. Be sure to enter the required information if you filled in the circle on line 3 or 5. For additional information about filing status, refer to page 13, general information section.

2006 California Volunteer Manual

Form 540

STEP 3 - EXEMPTIONS

**LINE 6
CAN BE CLAIMED AS DEPENDENT**

Fill in the circle on line 6 if your clients or their spouse can be claimed as a dependent on someone else's return.

For additional information about clients who can be claimed as dependents, refer to page 14, general information section.

**LINE 7
PERSONAL**

For information about the personal exemption credit, refer to page 14, general information section.

**LINE 8
BLIND**

For information about the blind exemption credit, refer to page 15, general information section.

**LINE 9
SENIOR**

For information about the senior exemption credit, refer to page 15, general information section.

**LINE 10
DEPENDENTS**

An exemption credit is allowed for each dependent. For additional information about dependent exemptions, refer to page 15, general information section.

**LINE 11
TOTAL NUMBER OF EXEMPTIONS**

Add line 7 through line 10.

STEP 4 – TAXABLE INCOME

LINE 12 STATE WAGES

Add up the amount shown for state wages, tips, etc. from box 16 on each of your clients' Forms W-2 and enter the total on line 12.

LINE 13 FEDERAL ADJUSTED GROSS INCOME

Enter the federal adjusted gross income from:

- * Form 1040EZ, line 4
- * Form 1040A, line 21
- * Form 1040, line 35

LINES 14 & 16 CALIFORNIA ADJUSTMENTS

California does not tax certain types of income that are taxable on your clients' federal return. There may be differences between the taxable amounts of federal and California IRA distributions, pensions, and annuities.

If there are differences between your clients' federal taxable income and state taxable income, your clients must complete a Schedule CA (540).

- * Some income may be taxable for federal purposes, but not for state purposes. On line 14, enter the amount from Schedule CA (540), column B, line 37.
- * Some income may be taxable for state purposes but not for federal purposes. On line 16, enter the amount from Schedule CA (540), column C, line 37.

CA (540)

Important: Attach to
Name(s) as shown on return

SSN or ITIN

Section A – Income

Part I Income Adjustment Schedule		A	B	C
Section A – Income		Federal Amounts (taxable amounts from your federal return)	Subtractions See instructions	Additions See instructions
7	Wages, salaries, tips, etc. See instructions before making an entry in column B or C . . .	7		
8	Taxable interest income	8		
9	Ordinary dividends. See instructions. (b)	(a)		
10	Taxable refunds, credits, offsets of state and local income taxes	10		
11	Alimony received	11		
12	Business income or (loss)	12		
13	Capital gain or (loss). See instructions	13		
14	Other gains or (losses)	14		
15	Total IRA distributions. See instructions. (a)	(b)		
16	Total pensions and annuities. See instructions. (a)	(b)		
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc.	17		
18	Farm income or (loss)	18		
19	Unemployment compensation. Enter the same amount in column A and column B . . .	19		
20	Social security benefits (a)	(b)		
21	Other income.			
a	California lottery winnings		a	
b	Disaster loss carryover from FTB 3805V		b	
c	Federal NOL (Form 1040, line 21)		c	
d	NOL carryover from FTB 3805V		d	
e	NOL from FTB 3805D, 3805Z, 3806, 3807, or 3809		e	
f	Other (describe)		f	
22	Total. Combine line 7 through line 21 in column A. Add line 7 through line 21f in column B and column C. Go to Section B	22		

Section B – Adjustments to Income

23	Archer MSA deduction	23		
24	Certain business expenses of reservists, performing artists, and fee-basis government officials	24		
25	Health savings account deduction	25		
26	Moving expenses	26		
27	One-half of self-employment tax.	27		
28	Self-employed SEP, SIMPLE, and qualified plans	28		
29	Self-employed health insurance deduction	29		
30	Penalty on early withdrawal of savings.	30		
31a	Alimony paid. (b) Recipient's: SSN _____ – _____ – _____ Last name _____ .	31a		
32	IRA deduction.	32		
33	Student loan interest deduction	33		
34	Jury duty pay you gave to your employer.	34		
35	Domestic production activities deduction.	35		
36	Add lines 23 through 31a and 32 through 35 in columns A, B, and C. See instructions.	36		
37	Total. Subtract line 36 from line 22 in columns A, B, and C. See instructions	37		

Part II Adjustments to Federal Itemized Deductions

38	Federal itemized deductions. Add the amounts on federal Schedule A (Form 1040), lines 4, 9, 14, 18, 19, 26, and 27	38	_____
39	Enter total of federal Schedule A (Form 1040), line 5 (State Disability Insurance and state and local income tax, or General Sales Tax) and line 8 (foreign taxes only). See instructions.	39	_____
40	Subtract line 39 from line 38	40	_____
41	Other adjustments including California lottery losses. See instructions. Specify _____	41	_____
42	Combine line 40 and line 41	42	_____
43	Is your federal AGI (Form 540, line 13) more than the amount shown below for your filing status?		
	Single or married filing separately.	\$150,743	
	Head of household	\$226,119	
	Married filing jointly or qualifying widow(er)	\$301,491	
	No. Transfer the amount on line 42 to line 43		
	Yes. Complete the Itemized Deductions Worksheet in the instructions for Schedule CA (540), line 43	43	<div></div>
44	Enter the larger of the amount on line 43 or your standard deduction listed below		
	Single or married filing separately.	\$3,410	
	Married filing jointly, head of household, or qualifying widow(er).	\$6,820	
	Transfer the amount on line 44 to Form 540, line 18	44	<div></div>

SCHEDULE CA (540) – PART 1 SECTION A

The purpose of this form is to make adjustments to your clients' federal adjusted gross income for differences between federal and California income or deductions.

Differences between California and Federal Law for 2006:

California law does not conform to federal law for:

- * The interest earned on Health Savings Accounts (HSA). HSA interest is taxable for California.

COLUMN A

Enter in column A, lines 7 through 21, the same amounts you entered on the federal Form 1040, lines 7 through 21 (or your clients' federal Form 1040A, line 7 through line 14b).

COLUMN B & C

LINE 7 WAGES, SALARIES, TIPS, ETC.

Generally, you will not make any adjustments on this line unless your clients received any of the types of income listed below:

- * Ride-sharing benefits
- * Sick pay received under the Federal Insurance Contributions and Railroad Retirement Acts
- * Income exempted by U.S. treaties

If any of your clients received ride-sharing benefits or sick pay received under the Federal Insurance Contributions and Railroad Retirement Acts, figure the difference between the amount reported on this line in column A and the taxable amount using California law. Enter the result on line 7, column B.

If any of your clients received income exempted by U.S. tax treaties (unless specifically exempt for state purposes also) and excluded it on their federal return, enter the excluded amount on line 7, column C.

2006 California Volunteer Manual

Form 540

SCHEDULE CA (540) – PART 1 SECTION A

LINE 8 TAXABLE INTEREST INCOME

Enter on line 8, **column B**, interest entered in column A that your clients received from the following:

- * United States savings bonds
- * United States treasury bills
- * Any other bonds or obligations of the U.S. and its territories
- * California law provides an income exclusion for interest received from California in conjunction with the refund of the Smog Impact Fee if your clients were not allowed to deduct the Smog Impact Fee when it was paid

Enter on line 8, **column C**, interest that your clients identified as tax exempt interest on Form 1040, line 8b (or Form 1040A, line 8b), and that your clients received from the following:

- * Non-California state bonds.
- * Obligations of the District of Columbia issued after December 27, 1973.
- * Non-California municipal bonds issued by a county, city, town, or other local government unit.
- * Interest from a health savings account.

For additional information for this adjustment, refer to page 17, general information section.

LINE 9 ORDINARY DIVIDENDS

Generally, you will not make an adjustment on this line. However, certain mutual funds are qualified to pay "exempt-interest dividends" if at least 50% of their assets

consist of tax-exempt government obligations. The part of the dividend that is tax exempt will be shown on your clients' annual statement.

If the California exempt-interest amount is more than the federal exempt-interest amount, enter the difference on line 9, column B.

LINE 10 STATE TAX REFUND

California does not tax state income tax refunds. Enter in column B the amount of state tax refund you entered in column A.

For additional information about this adjustment, refer to page 16, general information section.

LINE 11 ALIMONY RECEIVED

Only a nonresident alien who received alimony that was not included in their federal income would make an entry on this line in column C. Otherwise, make no adjustment.

LINE 12 BUSINESS INCOME OR LOSS

This is beyond the scope of the VITA/TCE volunteer program.

SCHEDULE CA (540) – PART 1 SECTION A

LINE 13 CAPITAL GAIN OR LOSS

Generally, there are no differences between the amount of capital gain or loss in column A and the amount to report using California law.

If your clients do not have any of the items listed below, do not make an entry on this line in either column B or column C. Go to line 14.

Use Schedule D, California Gain or Loss Adjustment, if your clients have differences from any of the following:

- * Basis amounts resulting from differences between California and federal law in prior years.
- * Gain or loss on stock and bond transactions.
- * Installment sale gain reported on form FTB 3805E, Installment Sale Income.
- * Gain on sale of personal residence where depreciation was allowable.
- * Capital loss carryover.

If your clients feel they may have an adjustment, you may refer them to Franchise Tax Board's toll-free public assistance number.

LINE 14 OTHER GAINS OR LOSSES

This is beyond the scope of the VITA/TCE volunteer program.

LINE 15 TOTAL IRA DISTRIBUTIONS

Generally, there will be no adjustments to this line. However, there may be significant differences in the taxable amount of a distribution depending on when your client

made their contributions to the IRA. For additional information, refer to page 17, general information section.

LINE 16 TOTAL PENSIONS AND ANNUITIES

California and federal law generally treat pension and annuity income the same. However, if your client received Tier 2 railroad retirement benefits or partially taxable distributions from a pension, you may need to make an adjustment. For additional information about this adjustment, refer to page 21, general information section.

LINE 17 RENTAL REAL ESTATE, ROYALTIES, PARTNERSHIPS, S CORPORATIONS AND TRUSTS, ETC.

This is beyond the scope of the VITA/TCE volunteer program.

LINE 18 FARM INCOME OR LOSS

This is beyond the scope of the VITA/TCE volunteer program.

LINE 19 UNEMPLOYMENT COMPENSATION

California does not tax unemployment compensation or paid family leave.

Enter the amount of unemployment compensation shown on line 19, column A on line 19, column B.

2006 California Volunteer Manual

Form 540

LINE 20 SOCIAL SECURITY BENEFITS

Enter in column B the amount of social security benefits or equivalent tier 1 railroad retirement benefits shown in column A. These amounts can be found either on Form 1040A, line 11b; or Form 1040, line 20b.

LINE 21 OTHER INCOME

Line a - California lottery winnings: California does not tax California lottery winnings. Enter the amount of California lottery winnings included in the amount on line 21, column A or line 21, column B.



*Do not make an adjustment for lottery winnings from other states. These winnings **are** taxable to California.*



***TaxWise Tip:**
"X" the box on W2G for CA lottery winnings to be excluded from the CA return. This will cause TaxWise to automatically deduct this income on the Schedule CA, line 21a.*

Lines b through e - Disaster loss carryover and net operating loss (NOL): These adjustments are beyond the scope of the VITA/TCE volunteer program.

Line f - Other (describe):

Include on line f, column B, income that you included in your clients' federal income on Form 1040 from:

- * Beverage container recycling.
- * Rebates from local water agencies, energy agencies, or energy suppliers.
- * Reward from a crime hotline.
- * Compensation for false imprisonment.
- * Cost-share payments received by forest landowners.

Include on line f, column C, foreign earned income or housing exclusion from Form 1040, line 21.

LINE 22 - TOTAL INCOME

Add lines 7 through 21f in column B and column C. Enter the totals on line 22.

SCHEDULE CA (540) – PART 1 SECTION B

This section of the Schedule CA (540) is used for adjustments to entries made on the Form 1040, lines 23 through 35. If your clients have no adjustments to income on these lines on their Form 1040, skip to line 34.

COLUMN A

Enter in column A, lines 23 through 35, the same amounts you entered on your clients' federal Form 1040, lines 23 through 35.

COLUMN B & C

LINE 23 THROUGH LINE 31

Below is a description of any adjustment necessary for columns B & C. California law is the same as federal unless otherwise noted:

2006 California Volunteer Manual

Form 540

LINE 23 ARCHER MSA DEDUCTION

No adjustment necessary.

LINE 24 CERTAIN BUSINESS EXPENSES OF RESERVISTS, PERFORMING ARTISTS, AND FEE-BASIS GOVERNMENT OFFICIALS

Enter the amount from line 24, column A to line 24, column B.

LINE 25 HEALTH SAVINGS ACCOUNT

Enter the amount of from line 25, column A, to line 25, column B.

LINE 26 MOVING EXPENSES

No adjustment necessary.

LINE 27 SELF EMPLOYMENT TAX

No adjustment necessary.

LINE 28 SELF-EMPLOYED SEP, SIMPLE and QUALIFIED PLANS

No adjustment necessary.

LINE 29 SELF-EMPLOYED HEALTH INSURANCE DEDUCTION

Enter on line 29, column C, the amount paid for health insurance coverage for your registered domestic partner and their dependents. Your total California deduction cannot exceed the federal limitations. Do not include health insurance costs for any month you were eligible to participate in any subsidized health plan maintained by you or your domestic partner's employer.

Enter on Line 29, column B, the amount of health insurance cost included in column A, line 29, for any month you were eligible to participate in any subsidized health plan maintained by your registered domestic partner's employer. Beyond the scope of most VITA/TCE programs.

LINE 30 PENALTY ON EARLY WITHDRAWAL OF SAVINGS

No adjustment necessary.

LINE 31 ALIMIONT PAID

No adjustment necessary.

LINE 32 IRA DEDUCTION

No adjustment necessary.

LINE 33 STUDENT LOAN INTEREST DEDUCTION

Beginning in tax year 2006, California conforms to federal tax law. Interest paid on student loans may be deducted in excess of 60 months repayment.

LINE 34 JURY DUTY PAY YOU GAVE TO YOUR EMPLOYER

No adjustment necessary.

2006 California Volunteer Manual

Form 540

STUDENT LOAN INTEREST DEDUCTION WORKSHEET

1. Enter the total amount from Schedule CA(540), line 26, column A..... 1. _____
2. Enter the total interest you paid in 2006 on qualified student loans. Do not include interest that was required to be paid after the first 60 months or interest for voluntary payments..... 2. _____
3. Enter the smaller of line 2 or \$2,500 3. _____
4. Enter the amount from Form 540, line 13.....4. _____
5. Add line 1 and line 4.....5. _____
6. Did you file federal Form 2555, 2555 –EZ, or 4563, or are you excluding income from sources within Puerto Rico or American Samoa from your federal income?
 NO. Skip line 6a – 6d. Enter the amount from line 5 on line 7
 YES. Continue to line 6a.
 - 6a. Enter any foreign earned income exclusion6a. _____
 - 6b. Enter any housing exclusion and/or deduction...6b. _____
 - 6c. Enter the amount of income from Puerto Rico that you are excluding from federal income6c. _____
 - 6d. Enter the amount of income from American Samoa that you are excluding from federal income6d. _____
7. Add line 5 through 6d7. _____
8. Enter the amount shown below for your filing status8. _____
 * Single, head of household or qualifying widow(er) - \$40,000
 * Married filing jointly - \$60,000
9. Is the amount on line 7 more than the amount on line 8?
 NO. Skip lines 9 and 10, enter 0 on line 11, and go to line 12.
 YES. Subtract line 8 from line 7.
10. Divide line 9 by \$15,000. Enter the result as a decimal. Do not enter more than "1.000" 10. _____
11. Multiply line 3 by line 10 11. _____
12. Student interest deduction. Subtract line 11 from line 3..... 12. _____
13. Student loan interest adjustment. Subtract line 12 from line 1. Enter the result here and on schedule CA (540), line 26, column B. 13. _____

**LINE 35
DOMESTIC PRODUCTION ACTIVITIES
DEDUCTION**

Enter the amount of line 35, column a, in
line 35, column b.

**LINE 36
ADD**

Add line 23 through line 35 in column B and
column C.

**LINE 37
TOTAL**

Subtract line 35 from line 22 in column B
and column C.

Transfer the amount from line 34:

- * Column B to Form 540, line 14; and
- * Column C to Form 540, line 16.

CAUTION: If Schedule CA (540), line 34,
column B is a negative number, do not
transfer it to Form 540, line 14. Instead,
transfer the amount as a positive number to
Form 540, line 16.

-OR-

If Column C is a negative number, do not
transfer it to Form 540, line 16. Instead,
transfer the amount as a positive number to
Form 540, line 14.



*California does not allow for the
clean fuel deduction. If your client
claimed this deduction on the federal
return, you must enter that amount
on line 36 of the Schedule CA.*

2006 California Volunteer Manual

Form 540

STEP 4 – TAXABLE INCOME (cont.)

LINE 17
CALIFORNIA ADJUSTED GROSS
INCOME

Combine lines 15 and 16 and enter the result on line 17.

LINE 18
STANDARD DEDUCTION OR
ITEMIZED DEDUCTIONS

Your clients must decide whether to itemize their deductions or to take the state standard deduction. Use the method that gives your clients the greater deduction.

If your clients are itemizing their deductions for state purposes, you must complete and attach Schedule CA (540) Part II – Adjustments to Federal Itemized Deductions to the Form 540.

For additional information about standard and itemized deductions, refer to page 21 through 23, general information section.

See page 122 for instructions on how to fill out the Schedule CA (540) Part II – Adjustments to Federal Itemized Deductions.

LINE 19
TAXABLE INCOME

Subtract line 18 from line 17. This is your clients' taxable income. If less than zero, enter -0-.